

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 DHA-02 ORM-01 AID-05 CIAE-00

COME-00 EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00

XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01

PM-03 H-02 L-03 NSC-05 PA-01 PRS-01 SS-15 /098 W

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R 181130Z JUL 75

FM AMEMBASSY NICOSIA

TO SECSTATE WASHDC 1996

INFO AMEMBASSY ATHENS

AMEMBASSY ANKARA

AMEMBASSY LONDON

USMISSION GENEVA

DIA WASHDC

C O N F I D E N T I A L SECTION 1 OF 2 NICOSIA 2245

PASS AID FOR NESA/NENA STATE FOR EUR/SE DELABARRE

E.O.11652: N/A

TAGS: ERCP, EFIN, EAID, CY

SUB: CERP 0202: GOVERNMENT OF CYPRUS BUDGET FOR 1975 DATED JULY 7.

REF: (A) NICOSIA 2159 (B) NICOSIA A-40

BEGIN UNCLASSIFIED

1. REF (B) TRANSMITTED EMBASSY'S UNCLASSIFIED CERP 0202 ON GOC'S BUDGET, RECEIPTS AND EXPENDITURES FOR FY/CY 1975 PER 10 FAM223. THIS CABLE PROVIDES DETAILS ON HOW GOC EXPECTS TO FINANCE ITS BUDGET DEFICIT AND SHOULD BE READ IN CONJUNCTION WITH REF (B), TRANSMITTED JULY 17. CONVERSIONS OF ALL FIGURES HAVE BEEN MADE FROM CYPRUS POUNDS TO U.S. DOLLARS AT RATE OF ONE POUND EQUALS 2.80 DOLLARS. FISCAL YEAR IS CALENDAR YEAR.

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2. AS FOR PAST 13 YEARS GOC BUDGET IS IN TWO PARTS. "ORDINARY

BUDGET", WHICH IS NORMAL CONSUMPTION BUDGET COVERING EXPENDITURES FOR MAINTENANCE AND OPERATION OF PUBLIC SERVICES, CALLS FOR TOTAL EXPENDITURES AND TRANSFERS OF \$192.3 MILLION (UP 5 PERCENT FROM

1974) AND REVENUES OF \$134.3 MILLION (DOWN 13 PERCENT OVER 1974). \$2.0 MILLION WAS CARRIED OVER INTO 1975 (FIRST DEFICIT SINCE INDEPENDENCE IN 1960) FOR WHICH FINANCING MUST BE FOUND IS \$56.0 MILLION.

3. "1975 DEVELOPMENT BUDGET", WHICH IS GOVERNMENT'S CAPITAL BUDGET DEVOTED ESSENTIALLY TO THE CREATION OF THE PUBLIC CAPITAL STOCK AND INFRA-STRUCTURE EMPHIZES EMPLOYMENT ACTIVITIES AND DEVELOPMENT OF THE COMMERCIAL AND INDUSTRIAL SECTORS AS WELL AS CONTINUATION OF CERTAIN MAJOR PROJECTS STARTED BEFORE SUMMER 1974. TOTAL DEVELOPMENT BUDGET CALLS FOR EXPENDITURES OF \$41.6 MILLION WITH \$6.3 MILLION FUNDED FROM SEMI-GOVERNMENTAL LOAN COMMISSIONS. THAT PART OF DEVELOPMENT BUDGET NEEDING FINANCING (THE DEVELOPMENT BUDGET HAS NO INTERNAL REVENUES) AMOUNTS TO \$35.3 MILLION. CARRY OVER FROM PREVIOUS YEAR IS \$1.8 MILLION. THE ORDINARY BUDGET IS EXPECTED TO CONTRIBUTE \$11.2 MILLION TO THE DEVELOPMENT BUDGET. THE DEVELOPMENT BUDGET DEFICIT AMOUNTS TO \$22.4 MILLION. END UNCLASSIFIED

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4. BOTH BUDGETS TOGETHER, AT THIS TIME, REQUIRE DEFICIT FINANCING OF \$78.4 MILLION, A FIGURE APPROXIMATELY ONE-THIRD THE TOTAL BUDGET OF THE GOVERNMENT. MINISTRY OF FINANCE INFORMS US ON PRIVILEGED BASIS THAT IT PLANS TO FINANCE DEFICIT AS FOLLOWS:

FIGURES IN MILLIONS:

(A) EXTERNAL BORROWING:	\$ 5.6
(B) INTERNAL FINANCING:	\$42.0
(C) AID FROM GOV'T OF GREECE:	\$16.8
(D) OTHER FOREIGN AID (UNHCR & USG)	\$14.0

5. FIGURES ARE EXTREMELY REVEALING IN THAT MORE THAN HALF OF DEFICIT IS TO BE INTERNALLY FINANCED. METHOD OF FINANCING WILL BE EXPANSION OF MONETARY BASE, I.E., PRINTING OF ADDITIONAL
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CURRENCY. ALSO REVEALING IS RELATIVELY LOW FIGURE LINE (D), "OTHER FOREIGN AID SOURCES, INCLUDING USG CONTRIBUTIONS". GOC EXPECTED AT TIME OF BUDGET PREPARATION SMALL-TO-INSIGNIFICANT FOREIGN HUMANITARIAN AID FOR 1975 (ALREADY BORNE OUT BY 1975 DONATIONS TO UNHCR) EXCEPT FOR ASSISTANCE FROM GREECE AND THE U.S. IT IS IMPORTANT TO NOTE THAT ABOVE ESTIMATE OF \$14 MILLION WAS MADE EIGHT MONTHS AGO.

6. AID FROM GREECE (ATHENS 2141) HAS FIRMED UP, ALTHOUGH GOC DOES NOT EXPECT TO UTILIZE ALL BENEFITS THIS YEAR. LARGE PART OF GREEK AID COMES IN FORM OF COMMODITIES, VALUE OF WHICH IS FIGURED IN GOC BUDGETS AS DESCRIBED REF (B) SEC IV PARA. 3. ASSISTANCE HAS INCLUDED PROCUREMENT OF FOOD-STUFFS FOR REFUGEES, CONSTRUCTION MATERIALS, UNIFORMS FOR NATIONAL GUARD, FERTILIZER. AT PRESENT RATE OF CONSUMPTION EMBASSY ESTIMATES CARRY OVER TO 1976 OF \$5 MILLION FROM TOTAL \$22 MILLION GREEK COMMODITY AID. GOC FOREIGN EXCHANGE GRANT IS UNLIKELY TO MATERIALIZE.

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7.GOC TRADITIONALLY UNDERESTIMATES ITS REVENUES AND MAY HAVE DONE SO AGAIN IN THIS BUDGET. THIS ESPECIALLY SO SINCE REVENUE ESTIMATES WERE MADE IN LATE 1974 AND EARLY THIS YEAR WHEN GENERAL MOOD IN GOC AND GREEK CYPRIOT POPULATION WAS PESSIMISTIC AND PRIOR TO DISCUSSION OF "REACTIVATION" OF ECONOMY. IF REVENUES ARE HIGHER, GOC PLANS TO REDUCE INTERNAL FINANCING OR EXPAND DEVELOPMENT BUDGET EXPENDITURES.

8. OTHER ADJUSTMENTS ARE ALSO TO BE MADE AS LEVEL OF FOREIGN AID

INPUT BECOMES CLEAR. FRG AID MAY TOTAL \$7 MILLION FOR 1975 OF WHICH LITTLE HAS ARRIVED YET. GOC BUDGET FORMALLY COUNTS ONLY \$1.4 MILLION FROM FRG SOURCES. EXPECTED ASSISTANCE FROM THE USG FOR MOST PART IS NOT INCLUDED IN THE BUDGET. THUS RECENT USG CONTRIBUTION THROUGH UNHCR OF \$5 MILLION FOR FOOD AND HUMANITARIAN PROJECTS CAN BE VIEWED AS BONUS RECEIPT NOT CALCULATED INTO FORMAL BUDGET. IN ADDITION PROPOSED USG FY76 ASSISTANCE WILL MEAN ADDED REVENUES IN LAST HALF GOC 1975 FISCAL YEAR.

9. PROBLEM ASSOCIATED WITH EXTERNAL AID IS THAT GOC HAS
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TENDENCY TO SET ASIDE FORWARD PLANNING UNTIL AID MATERIALIZES, THEN TAILOR PROGRAMS TO AID LEVEL. THIS CART-BEFORE-HORSE PROCEEDURE IS DIFFICULT TO FIGHT. RECENT EXAMPLE IS HOUSING FOR REFUGEES WHERE GOC REFUSES TO COMMIT ITSELF TO SPECIFIC PROGRAM GUIDELINES UNTIL IT HAS IDEA OF AID LEVEL TO EXPECT.

10. IN NEXT TWO WEEKS, FINANCE MINISTER PATSALIDES WILL DETAIL NEW GOC REACTIVATION PLAN FOR COUNCIL OF MINISTER CONSIDERATION. EMBASSY BELIEVES PLAN WILL BE MADE PUBLIC FIRST WEEK OF AUGUST. INDICATIONS ARE THAT DEVELOPMENT PROJECTS WILL CALL FOR EXPENDITURE LEVEL ABOUT TWICE PRESENT PROJECTED LEVEL IN DEVELOPMENT BUDGET OUTLINED ABOVE. IF THIS IS SO, EMBASSY OPINION IS THAT GOC IS MORE CONFIDENT OF HIGHER LEVEL OF EITHER EXTERNAL FINANCING (FOREIGN LOANS) OR FOREIGN AID. EMBASSY WILL COMMENT AND POUCH COPIES OF PLAN WHEN RELEASED.
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